



# “Changing Face of the Australian Grains Industry”

## Australasian Grain Game – Report Card from Investors

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## Summary

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### Background

- Investors = you and your superannuation

### Company Report Card metrics for “Changing Face”

#### 1. Sustainable Management

- ▶ Recognise and treat pimples
- ▶ Prioritise and gain from features

#### 2. Financial Returns

- ▶ Recognise relative performance
- ▶ Improve returns
- ▶ Grow sustainably

### Industry Report Card metrics for “Changing Body”

1. Consumer *has to be able to pay* much more for raw food over the next 20 years
2. Consumer *has to pay* much more for raw food over the next 20 years

## Investors

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- Growers – “your pocket” and “your land”
- Superannuation fund – “your super”
- Sovereign funds – “someone’s taxes”

	ABB Grain	AWB	CBH	GrainCorp
Growers	45%	40%	100%	~30%
Domestic	30%	50%		50%
Foreign	25% (Viterra?)	10%	JV partners	~5-10%

## Changing Face - “Pimples” and “Features”

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### Short term “Pimples”

- **Global confidence decline** – deflation, credit crunch
- **Regulation** – creeping back into some sectors (e.g.. Dairy)

### Long term “Features”

- **Sustainability** – culture, financial volatility/returns, limited resources (human, water, energy, materials), waste treatment (liquid, solid, gas <part of which is climate change>)
- **Consolidation** – across and between sectors
- **Regulation** – Australian wheat export deregulation (yes, priority #3)
- **Productivity** – Resource management, technology (genetically modified food)

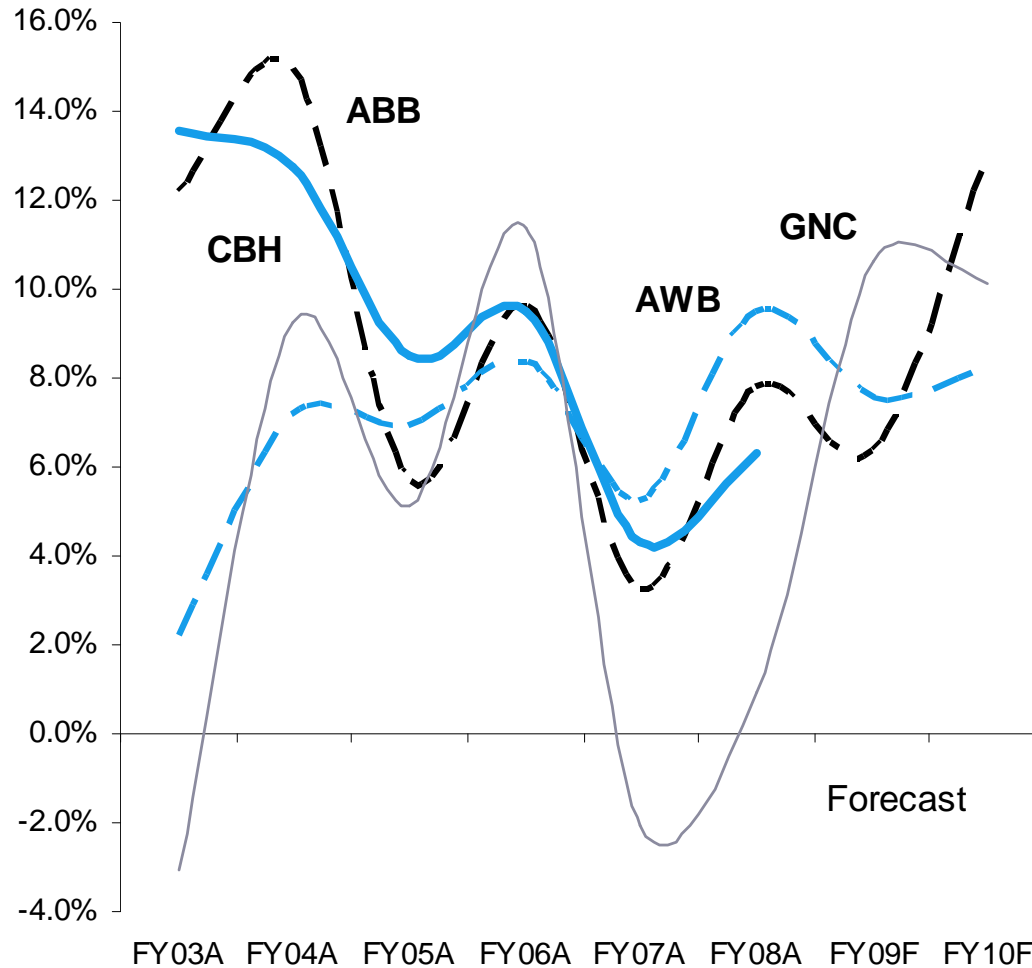
## Changing Face - Assessment

	<b>ABB Grain</b>	<b>AWB</b>	<b>CBH</b>	<b>GrainCorp</b>
<b>Recognise pimples</b>	<b>A</b> – few recurring problems	<b>C</b> – continuing earnings holes	<b>C</b> – too much capital on logistics	<b>B</b> - back to network leverage
<b>Prioritise features</b>	<b>B</b> – management stretched	<b>C</b> – moving away from trading	<b>C</b> – many levels of decision making	<b>C</b> – fixed balance sheet
<b>Sustainable response</b>	<b>B</b> – seeking global platform	<b>C</b> – 50% through transformation	<b>B</b> – OK if stay a WA S&H only	<b>C</b> – 50% through transformation

**Key takeaway** – Management and staff recognise pimples and treat permanently

**Key takeaway** – Management prioritise features  
 Example - Climate change is a very small subset of Sustainability

## Company Performance – Return on Investment



**Key takeaway – Volatile – Yes. Sustainable – Improving.**

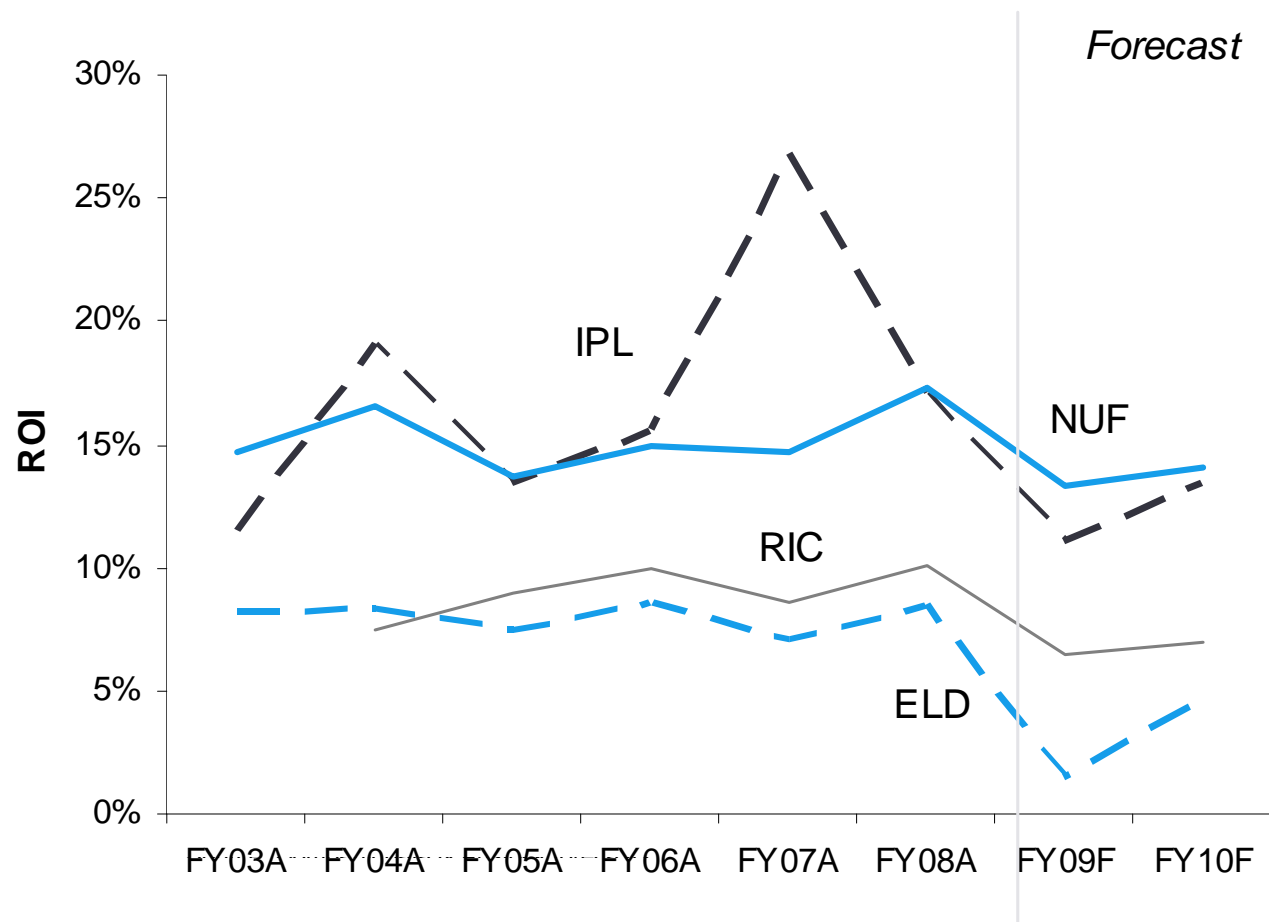
## Company Performance – ROI vs. 10% benchmark

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	<b>ABB Grain</b>	<b>AWB</b>	<b>CBH (2008)</b>	<b>GrainCorp</b>
Average 2003 to 2009	8.6%	6.7%	9.2%	4.6%
2010	13.1%	8.2%	-	10.2%

***Key takeaway – Sub 10% in recent times...not ideal***

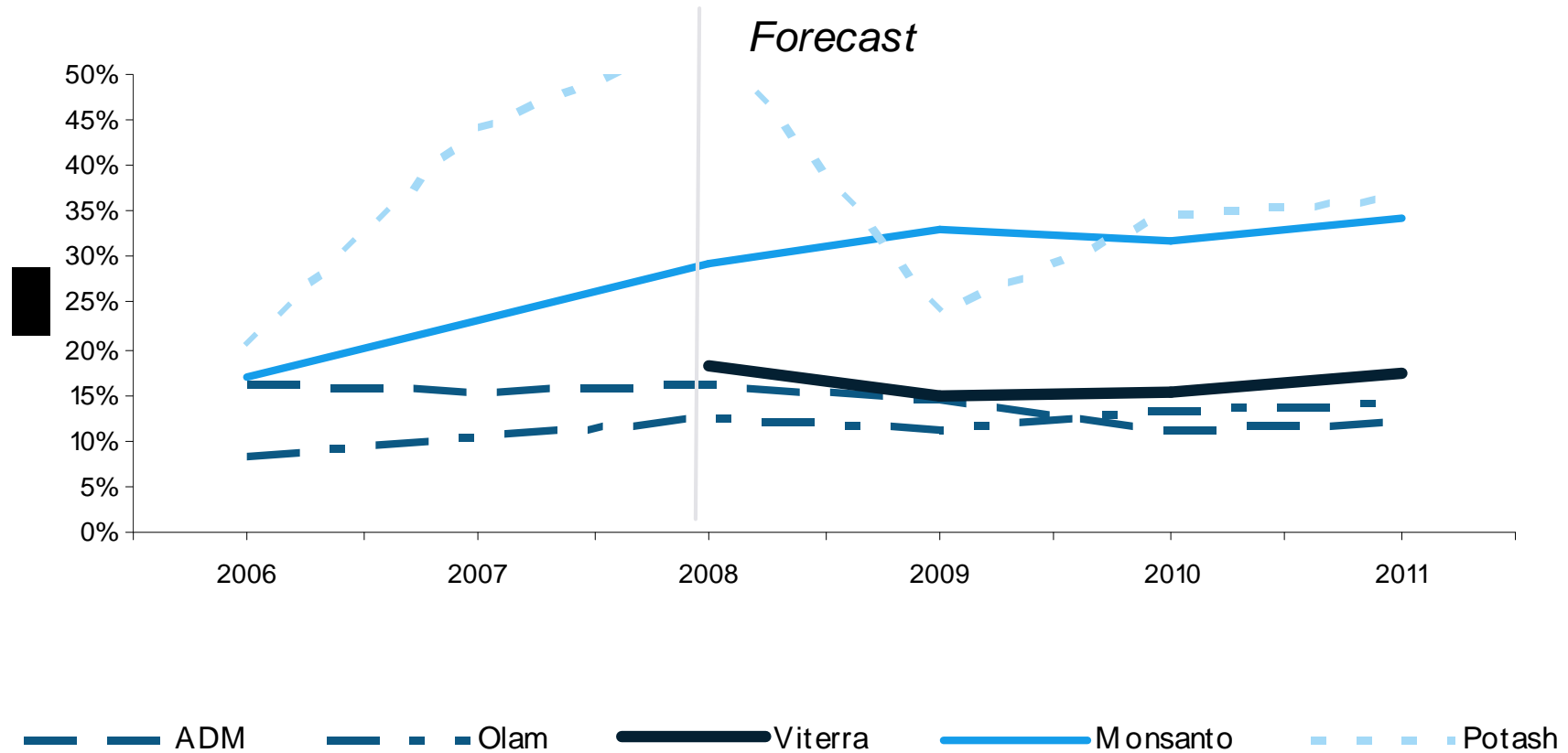
## Investor Choice - Associated Grain Companies



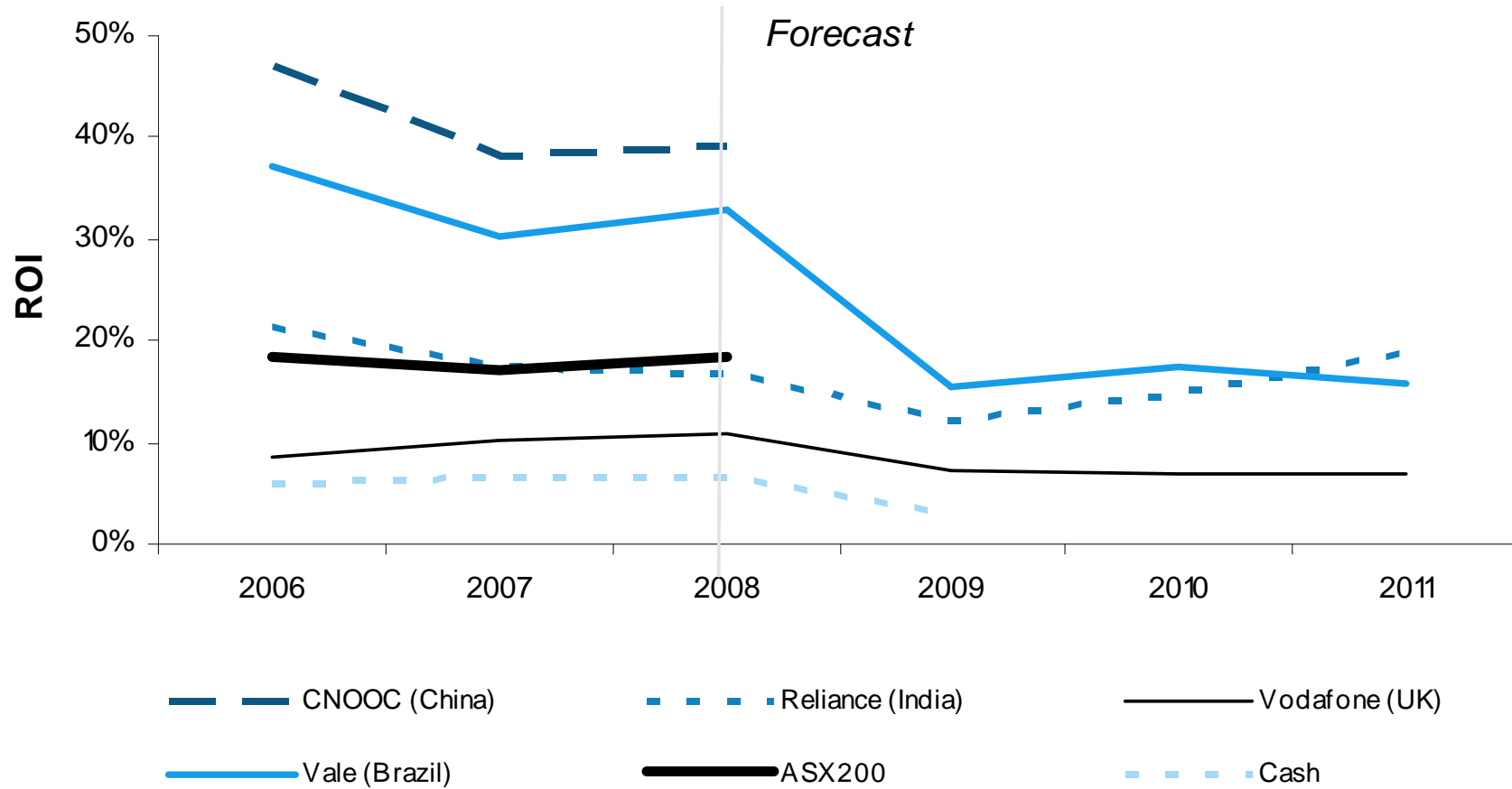
**Key takeaway – Deregulation and consolidation has widened definition of a “grain company”...Farm input companies are outperforming**



# Investor Choice - Global & Australian Benchmarks - Agribusiness



## Investor Choice - Global & Australian Benchmarks



**Key takeaway – Investment funds are very transportable**

## Industry Report Card metrics for “Changing Body”

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# Cheap food exists due to short and long term overcapacity

## Hurdles to sustainable farm gate prices

1. Excess processing capacity along chain
2. Poor grower selling power
3. Government and customers expect cheap food

## Current and sustainable retail prices (A\$) per item on RHS

Bread	1.09	1.15
Meat	13.00	14.33
Milk	1.48	1.63

## Current and *sustainable* farm gate prices (A\$)

Wheat	0.18 (17%),	0.24 (21% of final retail price)
Cattle	4.00 (31%),	5.33 (37%)
Raw Milk	0.30 (20%)	0.45 (28%)

Ref: Australia - CML & WOW On-Line 21/7/09, AWB APW wheat price <A\$300/mt, A\$400/mt>, EYCI beef price <A\$3.00/kg, A\$4.00/kg>, Dairy Australia FY'10 milk price <A\$0.30/litre, A\$0.45/litre> - Italics sustainable estimates by Austock

Note: Supermarket house brand prices used to illustrate farm gate % of final price. House brand vs. retail brand issue is left for later presentations.



Bread - white, sliced, loaf, 650g



Meat - mince, 1kg



Milk - 1 litre

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### Recommendation Criteria

#### Investment View

Austock Securities Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy > 20%, Hold 20% - 5%, Sell < 5%

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